

Sales Tax Exemption Week

Background:

Several states including Florida and New York have instituted a sales tax free week on certain products. In 1999 then Assemblyman Ashburn introduced AB 1320, which would have exempt products under \$500 from the sales tax. Unfortunately, the measure was held in the Assembly Revenue and Taxation Committee.

After discussing with the Governor's office ways in which the state could help working class families and stimulate the economy, Senator Ashburn agreed to revive the idea and include it in the performance review process.

Proposed Law:

Establish a week in which California stores would temporarily suspend the sales and use tax on clothing and shoes. This would substantially increase retail sales and tax revenue by increasing the number of gross purchases. Additionally, this type of promotion would bring more people into stores who in turn would purchase other items not exempt from the sales tax.

Specifics of the bill:

- The proposal is to exempt from State Sales Tax, clothing items and shoes which retail for under \$75 individually.
- The program will be effective the week of August 21 to 27 for the 2005, 2006 and 2007 calendar years.
- The bill would exempt clothing and shoes from all sales tax including state, local and transit.
- The bill would not apply to mail order items or lay away items.

Projected Income Loss:

In 1999 the Board of Equalization estimated its revenue loss based on the proposal of exempting items under \$500. Their revenue estimates were as follows:

1999-00	-\$359 Million
2000-01	-\$379 Million
2001-02	-\$399 Million
2002-03	-\$420 Million
2003-04	-\$440 Million

Under the original bill 63% of all items sold were under \$500. Since our proposed cost is \$75 and only applies to clothes and shoes we can expect the cost of this bill to be significantly less.

Rationale:

This tax proposal, unlike the previous proposal, is very specific to clothing and shoes. While customers will initially be motivated to purchase only clothing they will presumably make additionally purchases as they shop, which in turn will bring in new tax revenue. Additionally, this specification also ensures that luxury items are still taxable.

Furthermore, our proposed Sales Tax Exemption Week is a regressive tax that disproportionately assists poor and middle class families who most need the assistance. The third week of August is traditionally a time when parents have to purchase clothing for their children's school year. This proposal would ease the financial burden on working families as they prepare for the school year. Ultimately, allowing California's consumers to purchase a basic necessity for themselves and their families.

Dynamic Projected Sales increase:

In November of 1997 New York released a report entitled The Temporary Clothing Exemption: Analysis of the Effects of the Exemption on Clothing Sales in New York State. It sought to examine the effects of the tax exemption on shoppers. It found that 63% of the respondents said that the sales tax exemption had affected their clothing purchases and encouraged them to buy clothing during the week. The report also found that sales for the week of the exemption increased anywhere from 20%-50% depending on the store.

The sales tax exemption also took away sales from mail order purchases, which do not pay sales tax. The report found that 51% of New York residents purchased items via mail order with 22% of them choosing to do so in order to avoid paying sales tax. With E-Commerce ever increasing, companies face greater competition from online stores that do not pay sales tax. The Sales Tax exemption would help bring a greater share of business back into California stores.